### Tax Tutorial

In this tax tutorial, you will learn about two tax credits for children:

- child tax credit
- additional child tax credit

These credits are in addition to the credit for child and dependent care and earned income credit.

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### **Child Tax Credit**

The child tax credit allows taxpayers to claim a tax credit of up to \$1,000 per qualifying child.

To claim the child tax credit, there are:

- requirements for the qualifying child
- requirements for the taxpayer
- limits on the amount of credit

In order to claim the child tax credit, the taxpayer must have at least one eligible child.



Don't confuse these credits with the child and dependent care tax credit!

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### **Qualifying Child Requirements**

To qualify, the child must:

- be under age 17 at the end of the tax year
- be a citizen or resident of the United States
- not have provided over half of his/her own support for the tax year
- lived with the taxpayer for more than half of the tax year
- be the taxpayer's:
  - o child, stepchild, adopted child or a descendant of one (for example, a grandchild), or eligible foster child
  - o brother, sister, stepbrother, stepsister, or a descendent of one

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### **Qualifying Child Example**

Mary and Ed's adopted daughter, Tina, turns 12 during the tax year. She lives with Mary and Ed all year and is a resident of the United States. Mary and Ed support Tina. Tina is a qualifying child for the child tax credit because she is:

- under 17
- a resident
- living with Mary and Ed
- not providing more than half of her own support
- Mary and Ed's adopted child



### **Quick Check!**

Answer the following true-false questions about the limits on the amount of credit a taxpayer can receive for the child tax credit by clicking on the correct answer. To assess your answers, click the *Check My Answers* button at the bottom of the page.

- 1) Bill's son, Jeff, turned 17 on December 30, 2007. He is a citizen of the United States. Jeff lives with Bill and is supported by him. Jeff is a qualifying child for the child tax credit.
  - A. True The correct answer is false.
  - B. False
- 2) Laura's foster son Jack is 12. He is a citizen of the United States, he lives with Laura, and she provides financial support for him. Jack is a qualifying child for the child tax credit.
  - A. True The correct answer is true.
  - B. False



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### **Child Tax Credit Taxpayer Requirements**

Taxpayers must provide the name and social security number of each qualifying child on their tax returns.

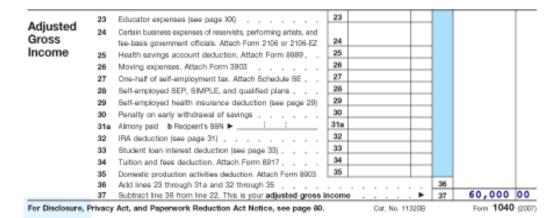
Exemptions	6a b	Yourself.	Boxes checked on 6e and 6b No. of children				
	c	Dependents:		(2) Dependent's	(3) Dependent's relationship to	HIV if qualifying shall for shall be:	on 6c who:  • lived with you
		(1) First name	Last same	social security number	100	credit isee page 19	did not live with
		James	Newberry	0000:00:3330	Son	✓	you due to divorce or separation
If more than four							(see page 20)
dependents, see page 19.							Dependents on 6c not entered above
programme and							Add numbers on
	d	Total number of exemptions claimed					lines above >



#### **Child Tax Credit Limits**

The amount of a taxpayer's child tax credit depends on the taxpayer's:

- tax liability
- modified adjusted gross income and filing status



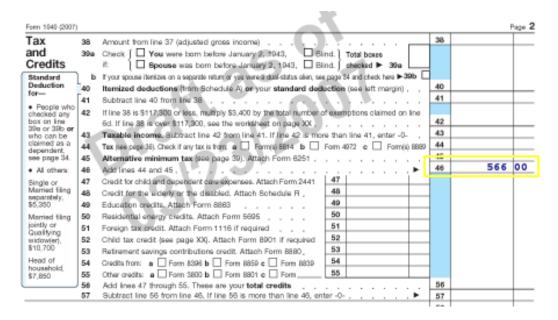
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#### **Child Tax Credit**

A taxpayer's child tax credit can only be as big as their tax liability. Once the tax liability is zero, the credit is zero because there is no tax liability to reduce.



Taxpayers who are not able to take the full amount of the child tax credit may be able to take the additional child tax credit.



Tax Tip:

Don't confuse these credits with the child and dependent care tax credit!



### **Child Tax Credit Limits**

A taxpayer's child tax credit may also be reduced if the taxpayer's modified adjusted gross income is above a certain amount for their filing status. The Child Tax Credit table shows the maximum modified adjusted gross income amount for each filing status.

Table 1: Child Tax Credit Maximum Modified Adjusted Gross Income Amounts					
Filing Status	Amount				
Married Filing Jointly	\$110,000				
Head of Household, Single, or Qualifying Widow(er)	\$75,000				
Married Filing Separately	\$55,000				



### **Child Tax Credit Limits Example**

Bill and Mary Allen have two dependent children under age 17. The children qualify for the child tax credit. Bill and Mary will file a joint return. Their modified adjusted gross income is \$55,600. Their tax liability is \$4,194.

Since their modified adjusted gross income (\$55,600) is less than the
maximum amount for their filing status (\$110,000), their initial child tax credit is
\$2,000.

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• Because their tax liability (\$4,194) is more than their initial child tax credit (\$2,000) they can take the entire \$2,000 child tax credit.

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#### **Child Tax Credit Limits**

The IRS supplies worksheets in the instructions with the Form 1040 and 1040A to help taxpayers figure out their child tax credit. If the child is not the taxpayer's dependent, fill out Form 8901. If the taxpayer's adjusted gross income is more than the maximum for their filing status, use the worksheet in Publication 972, Child Tax Credit, to figure the amount of the credit. Otherwise, use the Child Tax Credit worksheet in the Form 1040 and 1040A instructions.

#### **Child Tax Credit Limits Example**

Leroy and Melissa are married with three dependent children. They will file a joint Form 1040 for the year. The children are qualifying children for purposes of the child tax credit. Leroy and Melissa's modified adjusted gross income is \$112,000 and their tax liability is \$4,200.

Leroy and Melissa's modified adjusted gross income is over the maximum of \$110,000. Therefore, they are not eligible to claim a full child tax credit and must use Publication 972 to calculate a reduced credit.



### **Quick Check!**

Answer the following true-false questions about the limits on the amount of credit a taxpayer can receive for the child tax credit by clicking on the correct answer. To assess your answers, click the *Check My Answers* button at the bottom of the page.

Table 1: Child Tax Credit Maximum Modified Adjusted Gross Income Amounts					
Filing Status	Amount				
Married Filing Jointly	\$110,000				
Head of Household, Single, or Qualifying Widow(er)	\$75,000				
Married Filing Separately	\$55,000				

- 1) Sue has two children who qualify for the child tax credit. She is Married Filing Separately. Her modified adjusted gross income is \$60,000 and her tax liability is \$4,500. Sue is eligible to claim the \$2,000 child tax credit on her tax return.
  - A. True The correct answer is false.
  - B. False
- 2) Boris files as Head of Household and has three dependent children under 17. The children qualify for the child tax credit. Boris' modified adjusted gross income is \$54,000 and his tax liability is \$4,000. Is Boris eligible to claim the full \$3,000 child tax credit on his tax return?
  - A. True The correct answer is true.
  - B. False
- 3) Jose and Marie are married with two dependent children. They will file a joint Form 1040 for the year. The children qualify for the child tax credit. Jose and Marie's modified adjusted gross income is \$112,000 and their tax liability is \$6,200. Jose and Marie will have to use Publication 972 to figure their reduced credit.
  - A. True The correct answer is true.
  - B. False

### **Additional Child Tax Credit**

When a taxpayer's child tax credit is more than their tax liability, they may be eligible to claim an additional child tax credit as well as the child tax credit.

The additional child credit is also a tax credit of up to \$1,000 per qualifying child. To claim the additional child tax credit, there are:

- the same requirements for the qualifying child as for the child tax credit
- additional requirements for the taxpayer
- different limits on the amount of credit



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#### Refundable tax credit vs. Nonrefundable tax credit

#### **Nonrefundable Tax Credit**

A nonrefundable tax credit allows taxpayers to lower their tax liability to zero, but not below zero.

The child tax credit is a nonrefundable tax credit.

### Nonrefundable Child Tax Credit Example

Amy and Matt file as Married Filing Jointly and have two children who qualify for the child tax credit. Their modified adjusted gross income is \$86,000 and their tax liability is \$500. Even though their adjusted gross income is less than the maximum of \$110,000, they can only claim \$500, reducing their tax to zero.



### Refundable tax credit vs. Nonrefundable tax credit

#### **Refundable Tax Credit**

A refundable tax credit allows taxpayers to lower their tax liability to below zero. When this occurs, the government owes the taxpayer a refund.

The additional child tax credit is a refundable tax credit.

### **Refundable Child Tax Credit Example**

Remember Amy and Matt, who have two qualifying children, a modified adjusted gross income of \$86,000, and a tax liability of \$500? Because their tax liability is less than the initial child tax credit (\$2,000) they may be able to take the refundable additional child tax credit of \$1,500 (\$2,000-\$500).

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### **Additional Child Tax Credit Limits**

Like the child tax credit, the additional child tax credit allows eligible taxpayers to claim up to \$1,000 for each qualifying child.

The credit is whichever is lower:

- 15% of the taxpayer's taxable earned income that is over \$11,750, or
- The amount of unused child tax credit (caused when tax liability is less than allowed credit)



### **Additional Child Tax Credit Taxpayer Requirements**

To take the credit, taxpayers must:

- · meet the requirements previously discussed for the child tax credit
- · have a tax liability that is less than their allowable child tax credit
- earn more than \$11,750 during the tax year

#### **Additional Child Tax Credit Example**

Todd and Dawn have one qualifying child, a modified adjusted gross income of \$25,000 and a tax liability of \$250. They may be able to take the additional child tax credit of \$750 (\$1,000 - \$250) because they:

- · meet the requirements for the child tax credit
- have a tax liability of \$250 that is less then their initial child tax credit (\$1,000)
- earn \$25,000 (more than \$11,750)

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### **Quick Check!**

Answer the following true-false questions about the limits on the amount of credit a taxpayer can receive for the child tax credit by clicking on the correct answer. To assess your answers, click the *Check My Answers* button at the bottom of the page.

- 1) Jose and Yolanda Martinez are Married Filing Jointly and have three dependent children under the age of 17. The children qualify for the child tax credit. Jose and Yolanda's modified adjusted gross income is \$48,850 and their tax liability is \$2,000. The Martinezes may be eligible to take the additional child tax credit.
  - A. True The correct answer is true.
  - B. False
- 2 ) Taxpayers must take the additional child tax credit in place of the child tax credit.
  - A. True The correct answer is false.
  - B. False



### **Lesson Summary**

The child tax credit is a nonrefundable credit that allows qualifying taxpayers to reduce their tax liability.

If a taxpayer is not able to use the entire credit from the maximum \$1,000 per qualifying child, they may be eligible for the additional child tax credit, which is a refundable tax credit.



### Module 8 - Glossary

### **Glossary**

*tax credit* —a dollar-for-dollar reduction in the tax. Can be deducted directly from taxes owed.

**refund** —money owed to taxpayers when their total tax payments are greater than the total tax liability. Refunds are received from the government.

